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Colombia

Coffee Annual

2016

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Report Highlights:

Colombia coffee production exceeded expectations as El Niño weather phenomena impacts were minimal in volume produced, although quality of beans in the *mitaca* harvest may be affected. The revised post estimate for MY 2015/2016 is 13.6 million bags (1 bag = 60 kilograms unless otherwise noted) green bean equivalent (GBE), up from the previous estimate of 13.4 million bags GBE. Production is forecast to decrease in MY 2016/17 to 13.3 million bags GBE due to the potentially heavy rains from *La Niña* take hold in 2016.

Executive Summary:

The new Post estimates that Colombian coffee production will increase to 13.6 million bags GBE in MY 2015/16 (October through September), slightly up from the previous forecast of 13.4 million bags GBE. Production is forecast to decrease in MY 2016/17 to 13.3 million bags GBE due to projected flooding conditions that may affect second harvest. The National Federation of Coffee Growers of Colombia (FEDECAFE) estimates that average coffee productivity has increased to 15 bags per hectare from 10 bags per hectare five years ago. This is a direct result of the replanting program and a reduction in the average age of coffee trees from 15 to 7 years. The rust resistant variety replanting program and minimal impacts of El Niño weather phenomena on the main harvest (October to December) have helped to maintain strong productivity during the first seven months of MY 2015/16, up 15% from the same time period a year before.

Domestic prices are managed by FEDECAFE and based on the daily quote of the New York Coffee, Sugar and Cocoa Exchange (NYCSCE) less estimated costs for internal transport and administration. Since second semester 2014, coffee prices rose levels above the Government of Colombia (GOC) Protection for the Income of Farmers (PIC) subsidy program trigger price. The increase of internal price was driven by devaluation of Colombian peso and international commodity markets behavior after reducing uncertainty about the impact of drought in world production. The GOC continues to suspend the PIC program.

In MY 2015/16, Post estimates that exports will reach 12.3 million bags GBE paralleling the increase in production. Exports are forecast to remain unchanged at 12.3 million bags GBE for MY 2016/17.

Commodities:

Coffee, Green

Production:

Post revised estimates for Colombian coffee production are 13.6 million bags GBE in MY 2015/16, higher than previous estimates of 13.4 million bags GBE. Production remains strong as a result of mild impacts from the *El Niño* drought. Post forecasts production to decrease in MY 2016/17 to 13.3 million bags GBE as the production recovery stabilizes and the potential of flooding and other rain related conditions from *La Niña* during *mitaca* harvest (April to June 2017). Even though weather patterns have had minimal impact on production, coffee farmers and GOC officials remain cautious about the lingering effects from *El Niño* on the *mitaca* harvest and the potential of heavy rains later in 2016 due to *La Niña*. The *La Niña* weather phenomena is projected to materialize towards the end of 2016 and the first half of 2017, which could impact the flowering period for the MY 2016/17 *mitaca* harvest. Also, wet conditions are conducive to the spread of coffee rust, but that threat will be mitigated from the significant replanting program of rust resistant varieties.

There are two peak harvest periods during the calendar year. The main harvest period, from October to December, produces nearly 60 percent of total production. The second harvest period from April to June, or the *mitaca* crop, is mainly in the central coffee region of Colombia. Approximately 95 percent

of Colombia's coffee growers farm own less than 5 hectares of land. Small farmers with less than 5 hectares of land are responsible for approximately 69 percent of coffee production in Colombia.

Current production exceeds historical averages of 13 million bags GBE signaling a complete turnaround of the devastating impacts of coffee rust from 2008-2012. The last marketing year with production exceeding 13 million bags GBE was in 1992/93. The table below illustrates the production from the last ten years by month, as a total and the annual variability in total production year-on-year, highlighting the turnaround in MY 2012/13.

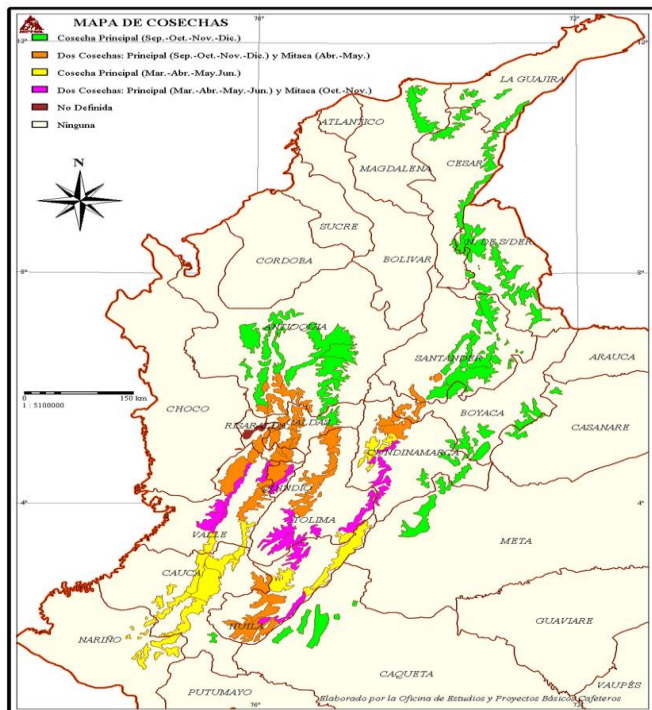
MONTH	MY 2006/07 (1000 Bags)	MY 2007/08 (1000 Bags)	MY 2008/09 (1000 Bags)	MY 2009/10 (1000 Bags)	MY 2010/11 (1000 Bags)	MY 2011/12 (1000 Bags)	MY 2012/13 (1000 Bags)	MY 2013/14 (1000 Bags)	MY 2014/15 (1000 Bags)	MY 2015/16 (1000 Bags)
OCT	1,024	1,129	939	544	807	656	653	1,058	1,101	1,368
NOV	1,242	1,522	933	760	979	845	770	1,113	1,115	1,322
DEC	1,294	1,363	1,105	821	1,164	735	904	1,115	1,086	1,454
JAN	963	1,404	876	515	908	535	877	1,011	1,088	1,136
FEB	1,001	1,090	868	648	764	571	625	874	1,029	1,096
MAR	776	872	765	629	779	576	617	828	800	944
APR	769	886	345	647	523	580	970	832	924	-
MAY	994	820	702	822	673	689	937	1,050	1,165	-
JUN	1,219	1,046	685	780	471	714	913	944	1,240	-
JUL	995	891	582	787	530	668	1,031	1,236	1,463	-
AUG	990	715	397	615	466	565	770	1,151	1,264	-
SEP	897	777	467	530	459	519	860	912	1,058	-
TOTAL	12,164	12,515	8,664	8,098	8,523	7,653	9,927	12,124	13,333	7,320
VAR. %	1.8%	2.9%	-30.8%	-6.5%	5.2%	-10.2%	29.7%	22.1%	10.0%	

Source: FEDECAFE

Despite the production recovery, a shortage of agricultural labor and a higher minimum wage have increased production costs for medium and large scale producers. Less farmworkers in the field detrimentally impacts production and control of insect pests, such as the coffee cherry borer. Farmworker labor to conduct field observation and clearing the soil of fallen cherries are critical to managing borer outbreaks. Borer infestation levels are less than 5% of planted area, but reports indicate that farm infestations are reaching 10% in the central growing region of Colombia. The borer detrimentally impacts the coffee quality resulting in price discounts at points of sale.

Rising input costs for labor, fertilizer and insect pest controls, combined with lower prices, have effectively squeezed farmer margins to the point of unprofitability. However, internal prices are on an upward trend in 2016, primarily supported by the depreciation of Colombian peso and international price behavior.

The map below illustrates the coffee producing regions of Colombia. The geography and topography of Colombia are unique with three mountain ranges that trifurcate the country from north to south, creating multiple micro-climates and ideal conditions for coffee production. Moreover, Colombia's proximity to the equator and ample photoperiod support harvesting coffee almost year-round.



Source: FEDECAFE

Consumption:

Post estimates for Colombian coffee consumption will remain unchanged in MY 2015/16 and MY 2016/17 at 1.4 million bags GBE. Local coffee consumption is driven by an increasing number of Juan Valdez coffee shops or cafes owned by a private consortium associated with FEDECAFE. The Juan Valdez cafes offer a variety of coffee and espresso drinks. Other companies with a presence in this market include Illy and OMA. Small coffee shops processed and consumer-oriented with high quality coffee have increased in recent years. The mega-coffee retailer Starbucks started operations in Colombia in 2014. Although Starbucks' sales are below Juan Valdez and OMA cafes, the growth rate in 2015 was much higher than its competitors. Coffee shops in Colombia are primarily oriented towards satisfying the coffee beverage preferences of young professionals. New coffee products such coffee pods or capsules are increasing in Colombian market.

Trade:

In MY 2016/17, Post estimates Colombian coffee exports will remain unchanged at 12.3 million bags GBE. Colombian coffee exports have been expanding significantly since 2013, paralleling the recovery in coffee production.

The United States is the major single destination for Colombian coffee, importing 43 percent of all Colombian coffee exports, with Japan, Germany, Belgium, and Canada importing 11, 8, 8, and 4 percent, respectively.

As part of a quality differentiation and improvement policy, Colombia is increasingly exporting high quality coffee that meets the cupping and grading expectations for certifications to capture more value added. Value added, specialty coffee now comprises close to 40 percent of Colombia's total coffee

exports. Colombian specialty coffee is booming with certified and organic coffees receiving significant price premiums, typically higher than traditional coffee exports. Coffee denomination of origin labels from specific regions of Colombia, such as the southern growing regions of Huila, Cauca and Nariño, are gaining more international recognition for the cupping quality and further value added. Colombian specialty coffee growers produce coffee under numerous international programs that provide fair trade and organic certifications such as USDA Organic, UTZ Certified, 4C, and Rainforest Alliance. Protocols vary between growers and intermediaries, including FEDECAFE, to maintain the levels of quality that will meet certification standards and buyer/consumer expectations abroad.

In an effort to promote direct trading and increase small-scale producer income, FEDECAFE launched an initiative to allow registered exporters to ship coffee in small quantities. Shipments of up to 60 kilograms of green coffee, roasted coffee, instant coffee and coffee extract, are occurring with authorized private shipping companies.

Stocks:

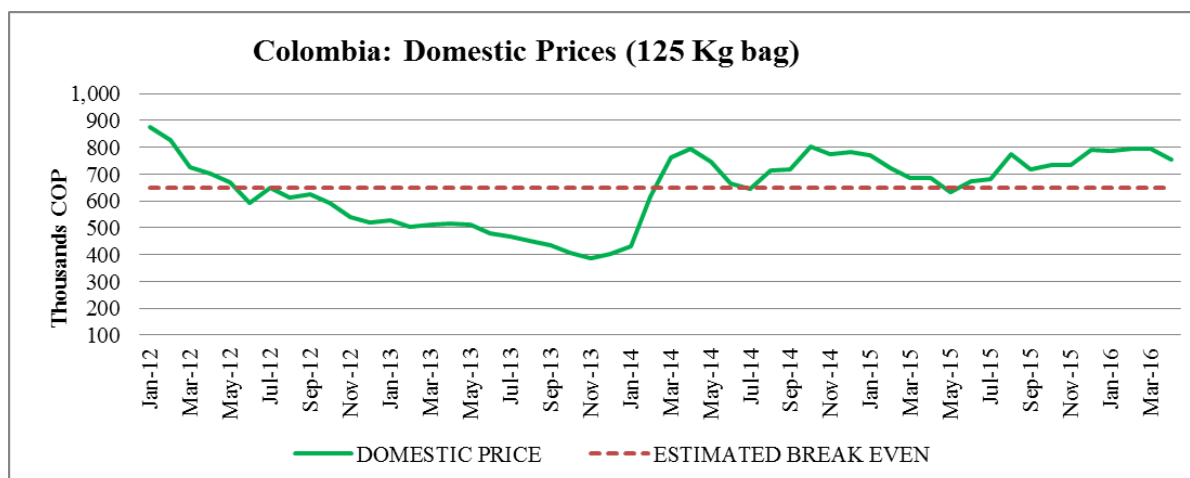
There exists no GOC or FEDECAFE policy to support large scale carry-over stocks of coffee. Post estimates for MY 2015/16 beginning stocks totaled 536,000 bags GBE. In MY 2016/17 beginning stocks will increase to 671,000 bags GBE. In MY 2016/17 ending stocks will fall to 491,000 bags GBE given that there is no policy incentive or infrastructure to maintain long term stocks, in addition to the projected reduction in production and the weaker Colombian peso, which offers more economic incentives to trade.

Policy:

The coffee sector has historically played a large role in Colombia's economic success, providing a livelihood for an estimated 600,000 producers and their families, giving FEDECAFE significant political influence. Most growers are members of FEDECAFE and take advantage of the organization's educational programs, technical training, and sales support. FEDECAFE purchases coffee from its members at an internal price which parallels the international commodity markets less some administrative and internal transport expenses. The FEDECAFE price acts as a floor price should farmers not procure higher price premiums for specialty coffee through other buyers and intermediaries.

The PIC subsidy program that began on March 18, 2013, was cancelled for the latter half of 2014 and remains suspended as prices have peaked above the PIC trigger price of COP 700,000 per 125 kilogram bag. Whenever prices dip below the PIC trigger price, coffee growers clamor for reinstatement and threaten protest.

In the first four months of 2016, the monthly average internal price of coffee reached Colombian Pesos (COP) 783,029 per 125 kilogram bag, a 9.3% increase from the year before. The graphic below illustrates the monthly internal price paid per 125 kilogram bag to growers by FEDECAFE. As reference, the estimated PIC trigger price is illustrated by the red, dotted line.



Source: FEDECAFE

Other GOC and FEDECAFE programs to assist growers have focused on controlling coffee rust, which successfully restored coffee production to an average of 12 million bags GBE. FEDECAFE manages low interest loan programs for the costs of replanting; however, loans are allegedly only offered for planting the rust resistant Castillo variety. Although Castillo variety has been effective to control the coffee rust, there is some discontent with growers that would like access to loans to plant other varieties, given issues with the Castillo yields and cupping quality. The GOC also offers financial assistance for all agricultural commodities through the Rural Funding Incentive program, which provides loans with discounted payback terms.

After studying the impacts of *El Niño* on 7,048 coffee farms, the GOC and FEDECAFE created a program to support coffee growers affected by drought conditions. The program is focused on providing inputs and other mechanisms to boost production in the drought-affected coffee farms. Additionally, a special loan category supported by the GOC Financing Fund for Agricultural Sector (FINAGRO), was established for drought impacted farms.

